CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-036
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Anthony DelMastro	Auditor

AUDIT REPORT NUMBER

#09-036

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

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Lloyd McCabe, President
Board of Directors
36th DAA, Dixon May Fair
655 South First
Dixon, California 95620

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 36th District Agricultural Association (DAA), Dixon May Fair, Dixon, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 36th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In 2008, Property records were not properly updated for auditing the year ending December 31, 2008. The Closed Project Status Report obtained from California Construction Authority (CCA) revealed three projects totaling approximately $169,120 that were recorded in the Fairs general ledger, however theses projects appear to be for more than one project. In addition we identified two projects that were not recorded in the Fairs general ledger that may need to be capitalized. We were unable to establish whether or not these items met the capitalization criteria, and the Fair was unable to provide any documentation to make an appropriate determination. As such, we were unable to satisfy ourselves to the amount stated in the accompanying financial statements for Account 192, Buildings and Improvements – Net, stated as $1,012,076 at December 31, 2008.

In our opinion, except for the effects of any adjustments, if necessary, that might be made to Account #192-Buildings and Improvements, and its related contra asset account, Account #192.1, Accumulated Depreciation-Buildings and Improvements, the financial statements referred to above present fairly, in all material respects, the financial position of the 36th DAA, Dixon May Fair, as of December 31, 2008, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 2007 financial statements referred to in the first paragraph were compiled by us. We did not audit or review those financial statements dated, December 31, 2007, and, accordingly, do not express an opinion or other form of assurance on them.

The 36th DAA, Dixon May Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-036, on the 36th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 36th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

Ron Shackelford

Ron Shackelford, CPA
Chief, Audit Office

August 31, 2009

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007

	Account Number	2008	(Unaudited) 2007
ASSETS			
Cash in Bank	111-117	$ 319,825	$ 185,627
Accounts Receivable, Net	131	1,336	16,192
Other Reimbursable Expense	136	5,307	-
Deferred Charges	143	11,481	11,410
Land	191	35,602	35,602
Buildings and Improvements, Net	192	1,012,076	1,056,024
Equipment, Net	193	-	5,960
TOTAL ASSETS		**1,385,627**	**1,310,815**
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	8,358	2,499
Taxes Payable	221 - 226	(3,467)	304
Deferred Income	228	68,596	14,695
Guaranteed Deposits	241	12,653	11,140
Compensated Absences Liability	245	43,103	42,832
Long Term Debt	250	8,085	20,224
Total Liabilities		**137,328**	**91,694**
Net Resources			
Reserve for Junior Livestock Auction	251	6,807	1,940
Net Resources - Operations	291	201,899	119,594
Net Resources - Investment in Capital Assets	291.1	1,039,593	1,097,587
Total Net Resources Available		**1,248,299**	**1,219,121**
TOTAL LIABILITIES AND NET RESOURCES		**$ 1,385,627**	**$ 1,310,815**

See accompanying independent auditor's report and notes to the financial statements.

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	Account Number	2008	(Unaudited) 2007
REVENUE			
State Apportionments	312	$ 150,000	$ 150,000
Project Reimbursement & Other Funds	317, 319, & 340	13,679	176,464
Admissions	410	353,929	312,374
Commercial Space	415	51,839	50,665
Carnival	421	118,467	111,569
Concessions	422	89,989	82,296
Exhibits	430	15,461	167,827
Attractions - Fairtime	460	284,154	60,953
Miscellaneous Fair	470	100,120	106,786
Junior Livestock Auction	476	52,242	62,216
Non-Fair Revenue	480	261,738	306,411
Prior Year Adjustments - Revenue	490	76,753	(1,060)
Other Revenue	495	4,894	21,793
Total Revenue		**1,573,265**	**1,608,294**
EXPENSES			
Administration	500	146,436	265,467
Maintenance and Operations	520	448,562	409,260
Publicity	540	38,035	80,430
Attendance	560	129,132	121,492
Miscellaneous Fair	570	39,676	50,559
Junior Livestock Auction	576	47,376	60,276
Premiums	580	20,978	17,449
Exhibits	630	52,335	67,979
Attractions - Fairtime	660	484,063	352,170
Equipment and Non-Capitalized Expenditu	723	5,735	27,830
Prior Year Adjustments - Expenses	800	62,152	368
Cash Over/Under	850	85	37
Depreciation Expense	900	61,828	63,860
Other Operating Expense	940	7,694	-
Total Expenses		**1,544,087**	**1,517,177**
RESOURCES			
Net Change - Income / (Loss)		29,178	91,117
Resources Available, January 1		1,219,121	1,128,004
Resources Available, December 31		**$ 1,248,299**	**$ 1,219,121**

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007

	2008	(Unaudited) 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	$ 29,178	$ 91,117
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	14,856	(14,754)
(Increase) Decrease in Deferred Charges	(71)	(597)
(Increase) Decrease in Other Reimbursable Expense	(5,307)	-
Increase (Decrease) in Payroll Taxes and Other Liabilities	(3,771)	305
Increase (Decrease) in Accounts Payable	5,859	1,882
Increase (Decrease) in Deferred Income	53,901	(26,740)
Increase (Decrease) in Guaranteed Deposits	1,513	2,540
Increase (Decrease) in Compensated Absences Liability	271	9,450
Total Adjustments	67,251	(27,914)
Net Cash Provided (Used) by Operating Activities	**96,429**	**63,203**
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Buildings & Improvements	43,948	(62,516)
(Increase) Decrease in Equipment	5,960	5,012
Net Cash Provided (Used) by Investing Activities	**49,908**	**(57,504)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	(12,139)	17,926
Net Cash Provided (Used) by Financing Activities	(12,139)	17,926
NET INCREASE (DECREASE) IN CASH	**134,198**	**23,625**
Cash at Beginning of Year	185,627	162,002
CASH AT END OF YEAR	**$ 319,825**	**$ 185,627**

See accompanying independent auditor's report and notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 36^{th} District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Dixon May Fair each year in Dixon, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do no conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to $40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than $5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 **NEW ACCOUNTING STANDARDS**

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues,* ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an "expected cash flows" measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures,* (GASB Statement No. 50"). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits ("OPEB") and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* ("GASB Statement No. 25"), and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* ("GASB Statement No. 27") to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* ("GASB Statement No. 43") and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* ("GASB Statement No. 45"). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* ("GASB Statement No. 51"). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	2008	(Unaduited) 2007
Petty Cash	$ 200	$ 200
Cash in Bank - Operating	12,592	66,247
Cash in Bank - Premium	2,979	2,220
Cash in Bank - Savings	93,307	10,358
Cash in Bank - JLA	1,475	1,940
Cash in Bank - LAIF	209,272	104,662
Total Cash and Cash Equivalents	$ 319,825	$ 185,627

NOTE 4 **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	2008	(Unaudited) 2007
Accounts Receivable	$ 68,511	$ 16,192
Allowance for Doubtful Accounts	(67,175)	-
Accounts Receivable - Net	$ 1,336	$ 16,192

NOTE 5 **PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	2008	(Unaudited) 2007
Building & Improvements	3,035,224	3,020,324
Less: Accumulated Depreciation	(2,023,148)	(1,964,300)
Building & Improvements - Net	$1,012,076	$1,012,076
Equipment	$ 129,555	$ 195,405
Less: Accumulated Depreciation	(129,555)	(189,445)
Equipment - Net	$ -	$ 5,960

NOTE 6 **LONG-TERM DEBT**

The DAA has entered into a long-term loan agreement with Fairs & Expositions (F&E) to finance for the purchase of tables and chairs. The terms of the agreement are as follows:

F&E Loan:

Loan Amount	$ 25,500
First Payment Date	May 1, 2007
Payment Amount	$ 770
Duration of Loan	36 Months
Interest Rate	5.5%,
Total Outstanding at 12/31/07	$ 8,085
Current Portion at 12/31/07	$ -
Long-Term Portion at 12/31/07	$ 8,085

NOTE 7 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

REPORT DISTRIBUTION

Number	Recipient
1	President, 36th DAA Board of Directors
1	Chief Executive Officer, 36th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

MANAGEMENT REPORT #09-036

YEAR ENDED DECEMBER 31, 2008

36TH DISTRICT AGRICULTURAL ASSOCIATION
DIXON MAY FAIR
DIXON, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Anthony DelMastro	Auditor

MANAGEMENT REPORT NUMBER
#09-036

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Lloyd McCabe, President
Board of Directors
36th DAA, Dixon May Fair
655 South First
Dixon, California 95620

In planning and performing our audit of the financial statements of the 36th District Agricultural Association (DAA), Dixon May Fair, Dixon, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Dixon May Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 36th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 36th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 36th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 36th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 36th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 36th DAA and compliance with state laws and regulations, we identified nine areas with reportable conditions that are considered weaknesses in the Fair's operations: internal control weaknesses over hiring, improper contracting with existing employee, reimbursable cell phone expenses, sponsorship policy & procedures, accounting for fixed assets, accounting for guarantee deposits, delegated & opportunity purchasing, standard agreements, and temporary employees. We have provided 22 recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 36th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is <u>not</u> required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

INTERNAL CONTROL WEAKNESSES OVER HIRING

From 2007 through 2009, the Fair did not seek the CDFA Human Resource Branch's assistance regarding the hiring of an employee who was related to the manager who signed the employee's timesheets. By not seeking their expertise, the Fair may have violated the CDFA nepotism policy. The CDFA policy states, "…it must be fully justified in writing and brought to the attention of the Chief, HRB, when the issue arises or prior to making a hiring commitment."

In 2007, a manager signed all time cards for time worked by the related employee who earned a total compensation of $7,419. In addition, the Fair contracted with this individual to act as the fair sponsorship coordinator. According to the contract, the terms were for a 36-month period beginning January 2007 through December 2009. The agreement was signed by a manager of the Fair and the sister of the manger. The sister received total payments from a percentage of sponsorships entered into on behalf of the Fair for a total of $4,188 in 2007, $2,000 in 2008, and $2,000 in 2009 for a grand total of $8,188 for the 36 month period. The $8,188 was paid out through the Fair's normal bi-monthly payroll process, with the necessary payroll taxes and withholding deducted. This is atypical, since most contractors are paid via an operating check, have no withholdings, and are issued an IRS Form 1099, Miscellaneous Income, at year-end, rather than a Form W-2, Wage and Tax Statement. Without proper oversight documented by the Fair our office cannot determine whether the working relationship was appropriate.

The Division of Fairs & Expositions (F&E) Accounting Procedures Manual (APM) section 17.2, (updated November 2009) cites the CDFA Administrative Manual, which prohibits direct supervision of any employee, permanent, temporary, or seasonal, with whom a supervisor has a personal relationship. However, F&E recognizes that it may be appropriate for two individuals who have a personal relationship to work in a single program, activity, or location.

Recommendation

1. *The Fair should comply with the APM and the CDFA Administrative Manual, and bring questions involving supervisor/subordinate relationships to the attention of F&E, the Chief of CDFA Human Resource Branch, or Equal Employment Office of CDFA for resolution.*

IMPROPER CONTRACTING WITH AN EXISTING EMPLOYEE

In 2008, the Fair violated the F&E Contract Manual, Section 1.10, by contracting with a 119-day employee for personal services totaling $5,075. The $5,075 paid was in addition to the salary earned by the individual as a 119-day employee that totaled $11,185 for the year. The Fair had two separate standard agreements where this employee was (i) listed as a sponsorship coordinator, and (ii) contracted to provide services in relation to the developing the 2009 Guide Book. Based on the job duty descriptions, compared to Internal Revenue Service (IRS) three common law rules to determine employment relationship, it appears that this 119-day employee may have been misclassified as a contractor for these services. The Fair should be cautioned that misclassifying individuals could result in fines and penalties pursuant federal Fair Labor Standards Act (FLSA) or applicable state laws. Therefore, the Fair should receive clarification from the IRS by submitting form SS8, Determination of Worker Status, as to the proper classification of this individual who renders services to the Fair.

In 2009, this employee obtained a permanent intermittent appointment at the Fair; however, the employee again entered into two separate contracts for sponsorships. In 2009, the employee's salary was $21,393; in addition, payments associated with the standard agreements totaled $1,225.

The F&E Contract Manual Section 1.10, states that current state employees, including 119-day temporary employees, cannot receive compensation from, or hold financial interest in, any employment, activity, or enterprise sponsored or funded by a state agency that is not required as a condition of state employment. Also, 119-day employees cannot contract as independent contractors with any state agency.

Recommendations

2. *The Fair should comply with the F&E Contract Manual section 1.10, as it pertains to conflicts of interest by ensuring all employees, including 119-day and permanent intermittent employees, do not enter into separate contracts with the Fair.*
3. *The Fair should ensure it properly classifies all individuals that work at the Fair. If the Fair has questions regarding classification, the Fair should contact the IRS and seek a recommendation as to the proper classification.*

REIMBURSABLE CELL PHONE EXPENSES

The Fair exposed itself to loss by reimbursing 90% of the private cell phone costs for an employee who used their personal cell phone for work related calls without proper support. The Fair could not provide any supporting documentation or explanation as to the methodology used to demonstrate that the 90% reimbursement rate was reasonable.

Upon examination of internal employee reimbursement claims, our office discovered this employee used a personal cell phone for work and on a monthly basis was reimbursed 90% of cell phone charges totaling $1,174 in 2008.

In the instances where State employees make work related calls on a private cell phone, the employee is required to complete a travel expense claim that includes the monthly invoice that highlights the individual call made and related cost associated with the call.

Recommendation

4. *The Fair should make improvements in the manner in which it reimburses business expenses to its employees. The Fair should either provide the employee a work related*

cell phone, or require an itemized monthly claim that identifies each work related call individually.

SPONSORSHIP POLICY & PROCEDURES

Our office found when reviewing the 36th DAA's Policy & Procedure Manual that the Board of Directors had not established policies and procedures for entering into sponsorship agreements and the securing of sponsorships, as required by the F&E Contract Manual, Chapter 6 § 6.40. According to the F&E Contract Manual the process to follow is: a) DAA Boards establish "procedures" for entering into sponsorship agreements, b) each DAA's procedures for securing sponsorships and sponsorship coordinators must be approved by the Board and maintained on file at the DAA's contract office, c) the DAA then follows the sponsorship procedures set by their Board, d) these procedures for sponsorship contracting, as well as the contracts themselves, are not subject to the Contract Manual requirements or F&E approval; they are subject to procedures established by the DAA. However, it should be noted that Food and Agriculture Code 4051.1(b) does require F&E pre-notification for sponsorship contracts that exceed $100,000 in value, or have a term of over two years, or contemplate the building of a permanent structure on fair property.

Recommendation

5. *The Fair Board of Directors should comply with the F&E Contract Manual and establish policies and procedures for entering and securing sponsorship agreements.*

ACCOUNTING FOR FIXED ASSETS

The Fair did not properly account for five capital improvement projects coordinated by the California Construction Authority (CCA) that may or may not meet the asset capitalization criteria. As a result, amounts stated by the Fair for fixed assets may be overstated on the year-end financial accounting records. Furthermore, since the Fair has started depreciating its fixed assets, these omissions may impact the amounts reported as net resources by the Fair in the year-end statement of operations (STOP).

We reviewed the CCA closed project status reports pertaining to the 36th DAA and identified five closed projects from 2001 through 2008. We identified three completed projects on the Fair's general ledger (GL) totaling $169,120 that may not meet the asset capitalization criteria. We identified two additional projects totaling $35,000 that may need to be capitalized that were not on the GL. Projects having a value of $5,000 or more and a useful life of at least one year should be capitalized according to the asset capitalization criteria established by the Department of Finance (DOF). The Fair was unable to indicate to the auditor whether the projects and tasks comprising the $169,120 and $35,000 need to be capitalized. Due to this large discrepancy, we were unable to satisfy ourselves about the amounts at which Account #192, Buildings and Improvements - Net, (stated at $1,012,076) is stated in the accompanying statements of financial condition at December 31, 2008.

Furthermore, the Fair does not have individual ledger sheets for each capitalized asset. In order to provide greater understanding and accountability, individual ledger cards are used to identify each asset and improvement thereon that agrees to the depreciation schedule. The

Fair should recreate a property ledger that is consistent with the F&E Asset Depreciation Manual.

In addition to the above, we noted that the Fair was incorrectly capitalizing two pieces of equipment (Konica Copier, and Livestock Panels) totaling $10,165 and $40,785, respectively. The Konica Copier was no longer in the Fair's possession and Livestock Panels represents approximately 200 individual panels. As a result, these items should be removed from the GL. The Fair also incorrectly classified fencing totaling $14,900, permanently installed on the fairgrounds as equipment. This item should be reclassified as an improvement. Moreover, we identified one item (Goodwin & Cole – Canopy) totaling $7,498 that was not currently being depreciated on the Fair's GL.

Lastly, the Fair last performed a physical inventory during 1998 for maintenance and 2005 for office supplies. The Fair is not performing an inventory on a timely basis. In addition, the Fair does not properly mark and identify all movable non-monetary equipment with a state identification tag.

Recommendations

6. *The Fair should work with the CCA as soon as possible in an attempt to reconcile the $169,120 and $35,000 discrepancy in capital project accounting between the two organizations. Adjustments, if any, should be made to the Fair's accounting records once the cause of this discrepancy has been identified.*
7. *The Fair should improve its accounting and management of capital project costs by maintaining timely and accurate records of each project completed during the fiscal year. Furthermore, the Fair should reconcile the property ledger with the CCA closed project status reports prior to closing its accounting records and completing its year-end financial reports.*
8. *The Fair should research closed projects and determine whether or not these projects meet the capitalization criteria. All projects found to meet the capitalization criteria should be capitalized and depreciated accordingly using the guidelines established in the F&E Fixed Asset Policy and Procedures Manual.*
9. *The Fair should ensure that a property ledger card is established for each asset that is currently being capitalized. The property ledger should support the depreciation schedule and be updated annually.*
10. *The Fair should perform an inventory at minimum every three years and update the non-monetary equipment listings accordingly. At that time the Fair should identify each movable item with a state identification tag to mitigate the possibility of theft.*

ACCOUNTING FOR GUARANTEE DEPOSITS

During our examination we noted multiple errors in Account #241, Guarantee Deposits. As a result guarantee deposits were overstated in the 2008 STOP by a total of $77,987. In 2008, the Fair erroneously journalized two interim revenue contracts totaling $72,160 and $4,716, into the guarantee deposit account. Since these events took place in 2008 the Fair should recognize these two interim contacts as revenue earned in 2008.

In addition, the Fair mistakenly misclassified one guarantee deposit totaling $1,111 that should have been recognized as deferred revenue. Although Account #241, Guarantee Deposits, and Account #228, Deferred Income, maintain credit (liability) balances, guarantee deposit represents monies due back to renters whereas deferred income represents a future service, not cash due to the renter for the advance receipt of monies.

We noted a variance between the general ledger and the Fair's accounting records of $5,119 that cannot be substantiated. It appears that the Fair's control log does not adequately support the GL balance. Since guarantee deposits represent a liability on the Fair's balance sheet, errors in the posting of activity to this account may materially affect the Fair's results of operations.

Recommendations

11. *The Fair should make it a priority to research and determine the correct balance for Account #241, Guarantee Deposits. The necessary correcting journal entries should be made to ensure the account is fairly stated.*

12. *Prior to closing the accounting period and preparing the year-end financial statements, the Fair should perform an annual reconciliation between the control log and the general ledger to ensure they are in agreement for Account #241. This helps ensure all amounts reported as liabilities in the year-end financial statements are not materially misstated.*

DELEGATED & OPPORTUNITY PURCHASING

The Fair's compliance with State of California purchasing procedures was reviewed and the following weaknesses were noted:

a. The Fair does not have a current delegated purchasing authority from the Department of General Services (DGS). DGS requires DAAs throughout the State to renew delegated purchasing authority on an annual basis. Regardless of the type of purchase, the purchasing authority is granted for a twelve-month period. According to the DGS Purchasing Administrative Manual (PAM) § 1.17, departments without approved purchasing authority are prohibited from conducting purchasing activities, including non-information technology (IT) goods exceeding $100, IT goods and services of any dollar value, and participation in CAL-Card Purchase Card Program.

b. The Fair did not comply with the APM when making opportunity purchases. Public Contract Code (PCC) § 10321 states that local businesses often provide opportunity purchases to Fairs that may be purchased locally at a price equivalent to or less than that available through the state purchasing program; however, to claim an opportunity purchase, the Fair must demonstrate and provide copies of bid information or exemption justification when necessary. Also, per APM Chapter 5, Section 5.94, the Fair must demonstrate that an opportunity purchase meets or is better than the State price.

c. The Fair did not use the proper form for the expenses related to services. Based on our review, we noted multiple instances that the Fair incorrectly used a purchase order (PO) instead of standard agreement for services that, in our opinion, did not present a minimal liability to the Fair. According to F&E's Purchasing Manual Section XI, Service and Rental Transactions, "transactions with minimal or no liability exposure can be completed on a purchase order". Based on our review, we have determined that these services do not have a minimal liability exposure, thus the Standard Agreement Form 210 or 213 should have been used depending on the amount of expense incurred. Since the Fair did not use the proper form, this could lead to potential circumvention of state rules.

Recommendations

13. *The Fair should work with DGS in order to obtain a renewal of its Delegated Purchasing Authority. Furthermore, the Fair should submit a yearly "Request for Delegated Purchasing Authority" in a timely manner to ensure that their authority does not expire. Once a purchasing authority expires, the Fair is prohibited from making delegated purchases that exceed $100.*
14. *The Fair should follow PCC and the guidelines in the APM for claiming opportunity purchases, which require obtaining bids and documenting that the price for the opportunity purchase meets or is better than the state price.*
15. *The Fair should comply with state rules and complete the necessary Standard Form 213 or 210 for service contracts, regardless of the amount.*

STANDARD AGREEMENTS

An examination of standard agreements entered into by the Fair and other parties identified the following exceptions:

a. The Fair did not complete form STD 204, Payee Data Record, for all businesses/individuals (except government agencies) receiving payment from the State of California (Fairs). This form is used in lieu of IRS Form W-9, and should be on file for taxpayer identification purposes.

b. The Fair did not always prepare a standard agreement for businesses/individuals who received an IRS Form 1099-MISC, for services rendered. Failure to prepare a standard agreement exposes the Fair to considerable risk. The IRS Form 1099-MISC is issued to recipients of non-employee compensation of $600 or more from the Fair during the year. According to the APM, fairs are required to enter into a contract for all services performed by independent contractors.

c. The Fair did not always submit proof of liability insurance to CFSA for review and approval for six contracts reviewed. Fairs are required to submit insurance to CFSA for review, prior to services being performed, to verify that insurance provides adequate coverage.

d. The Fair did not prepare a Standard 215 Agreement Summary (STD 215) for each Standard 213 Agreement (STD 213) entered into, as required by the F&E Contract Manual. According to the F&E Contract Manual, a STD 215 is necessary for contracts in excess of $10,000.

e. The Fair did not have evidence of a formal bid for contracts that exceeded $5,000. The State Contracting Manual, Section 5.06, dictates that state contracts of $5,000 or more must have evidence that bids were obtained. Furthermore, Section 5.08, Competitive Bidding Options, states that "three competitive bids or proposals are required."

f. The Fair did not submit quarterly contract reports listing all standard and rental agreements processed during the quarter regardless of dollar amount or terms of the contract to F&E, as required by the F&E Contract Manual.

Recommendations

16. *The Fair should complete Form STD 204, for all individuals who provide service to the Fair. The completion of this form ensures the proper accounting for the tax identification of these individuals.*
17. *The Fair should ensure that a contract exists for any business/individual who receives an IRS Form 1099-MISC from the Fair for services rendered.*
18. *The Fair should ensure that CFSA reviews and approves all insurance providers prior to the execution of a service contract to ensure insurance is adequate.*
19. *The Fair should comply with the F&E Contract Manual by ensuring a STD 215 Agreement Summary is prepared for each STD 213 Agreement.*
20. *The Fair should ensure it complies with the State Contracting Manual by obtaining competitive bids for all service contracts valued at more than $5,000 using the Invitation for Bid (IFB) or Request for Proposal (RFP) process.*
21. *The Fair should ensure that a list of all standard and rental agreements entered into for the quarter is submitted to F&E for review.*

TEMPORARY EMPLOYEES

The Fair did not enroll two 119-day employees, who worked in excess of 1,000 hours within the fiscal year, into the Public Employees' Retirement System (PERS). These two employees worked 1,086 and 1,026 hours, respectively, in 2008. Once temporary employees exceed 1,000 hours in a given fiscal year they automatically become members of PERS; however, we noted no PERS deduction taken on the subsequent pay period after the employees exceeded the 1,000 hours.

Recommendation

22. *The Fair should enroll all temporary employees into the Public Employees' Retirement System once the employees exceed the 1,000 hours limitation in a given fiscal year.*

NON-REPORTABLE CONDITIONS

COMPENSATED LEAVE LIABILITY

The Fair allowed one employee to carry over Compensated Time Off (CTO) in excess of 240 hours. This employee had approximately 334 hours of CTO at year-end. According to the employee's respective bargaining unit (unit 1 – Professional, Administrative, Financial, and Staff Services), the maximum number for CTO is 240 hours. As stated by the employee's bargaining unit, "Employees may accumulate up to 240 hours of CTO. All hours in excess of 240 CTO hours shall be compensated in cash."

In addition, the Fair allowed one employee to accumulate 673 of vacation hours at year-end. According to the employee's respective bargaining unit (unit 12 – Craft and Maintenance), the maximum number of leave hours allowed to carry over in a calendar year is 640 hours vacation/annual leave.

The Fair did not correctly account for Account #245, Compensated Leave Liability, to reflect the appropriate amount of time used or earned for 2008. Based on our recalculation of leave liability, we noted a $9,573 understatement compared the GL. According to the APM, this balance should be updated annually prior to preparing the year-end STOP.

Recommendations

The Fair should encourage employees with excess balances to take time off and compensate employees in cash for excess CTO hours, thereby reducing their accumulated leave balances

The Fair should ensure permanent employees do not maintain accrued leave hours in excess of the required limits. The Fair should encourage the employees with excess balances to take time off, thereby reducing their accumulated leave balances.

The Fair should review employee leave balances and compare them to employee time cards at year-end to ensure that account #245, Compensated Leave Liability, reflects the appropriate liability. This account should be adjusted annually.

FAIR LABOR STANDARD ACT (FLSA) RECREATIONAL EXEMPTION

The Fair did not calculate the federal FLSA exemption percentage of gross revenues correctly. The percentage determines whether the Fair meets the recreational exemption in order to be exempt from paying time and one-half overtime to temporary employees. The FLSA calculation requires the monthly gross receipt figure be reported on the FLSA recreation worksheet. Gross receipts are defined as revenues collected by the Fair, which are available for operating use. The Fair incorrectly included guarantee deposits and other reimbursable expenses in calculating gross receipts in the monthly figure on the FLSA recreation worksheet.

Recommendation

The Fair should ensure that monthly gross receipts reflect revenue that is available for operation. Reimbursable expenses should not be included in the gross receipts calculation for recreational exemption.

ACCOUNTING FOR LONG TERM DEBT

The Fair did not properly reconcile Account #250, Long Term Debt, stated at $8,085 at year end. The Fair made various journal entries directly to Account #250 that were unrelated to any promissory notes, and therefore do not belong in Account #250. The Fair should research and reconcile Account #250 to ensure the amount reflected in the general ledger represents long term debt entered into with terms greater than one year. The Fair should annually reclassify long term debt amounts due in the current year as current portion of long term debt due.

Recommendation

The Fair should ensure that Account #250, Long Term Debt, is updated correctly in the general ledger and that debt is properly classified as long term or current portion due.

JUNIOR LIVESTOCK AUCTION (JLA)

The Fair has not adequately reconciled Account #251, JLA Reserve, to the corresponding bank Account #117, Cash-JLA. According to APM Section 2.37, the balance in the auction account, adjusted for accounts receivable and accounts payable, must equal Account #251, JLA Reserve, at year-end.

Recommendation

The Fair should comply with APM Section 2.37 and annually reconcile Account #251, JLA Reserve, to the JLA Cash Account.

ACCOUNTING FOR INDEPENDENT CONTRACTORS

The Fair was unaware that it is required to submit to the Employment Development Department (EDD) form DE 542, Report of Independent Contractors, for independent contractors. The Fair is required to report to EDD within 20 days of paying or contracting for $600 or more with an independent contractor in any calendar year by submitting form DE 542. According to EDD, any business or government entity that is required to file a federal IRS Form 1099-MISC for services received from an independent contractor is required to report specific independent contractor information to EDD. This information is used by EDD to locate parents who are delinquent in their child support obligations.

Recommendation

The Fair should comply with the State Senate Bill 542 that requires entities to report specified information to EDD on independent contractors within 20 days of either paying *or contracting for $600 or more in any calendar year, whichever is earlier, to avoid penalty for failure to comply within the required timeframe.*

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

DIXON MAY FAIR

36th District Agricultural Association

California Department of Food & Agriculture
Attn: Ron Shackelford, CPA, Audit Chief
2014 Capitol Avenue, Suite 107
Sacramento, California 95814

February 25, 2010

Re: Management Report Number
#09-036

Recommendations:

1. INTERNAL CONTROL WEAKNESSES OVER HIRING

Neither person is still employed here. We will adhere to the proper procedures established.

2. & 3. IMPROPER CONTRACTING WITH AN EXISTING EMPLOYEE

We will conform to F & E Contract Manual. Any classification issues we will contact IRS for advice.

4 REIMBURSABLE CELL PHONE EXPENSES

As of Feb 2010 the act of reimbursing cell phone expense has ceased. We have obtained work cell phones through the State plan.

5. SPONSORSHIP POLICY & PROCEDURES

Procedures are in place and were reviewed by Dixon May Fair Regional Development Committee. We will obtain approval from the Board on Sponsorship Policy & Procedures

6-8 ACCOUNT FOR FIXED ASSETS

We are working with the California Construction Authority in clarifying these discrepancies and will work with the California Fair Services Authority in clarifying and reconciling.

9-10 Have the Statewide Property Inventory Annual CD/ Working on compliance.

11-12 ACCOUNTING FOR GUARANTEE DEPOSITS

This has been rectified with our guarantee deposit records and CFSA records. They are both in balance.

13-15 DELEGATED & OPPORTUNITY PURCHASING

We will work with the Department of General Services to comply with the requirements.

STANDARD AGREEMENTS

16-21 Establishing processes and procedures to comply with CFSA, F & E Contract Manual

TEMPORARY EMPLOYEES

22. Will enroll any temporary employee over 1000 hours into PERS automatically

Signed
Lloyd McCabe, 36th DAA Board President

Signed
Jack Murphy, 36th DAA CEO

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 36th DAA, Dixon May Fair for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between August 17, 2009 and August 31, 2009. My staff met with management on August 31, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

Ron Shackelford

Ron Shackelford, CPA
Chief, Audit Office

August 31, 2009

REPORT DISTRIBUTION

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1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office